

Regular Session, 2011

HOUSE BILL NO. 530

BY REPRESENTATIVE PEARSON

Prefiled pursuant to Article III, Section 2(A)(4)(b)(i) of the Constitution of Louisiana.

RETIREMENT/STATE SYSTEMS: Relative to state retirement systems, increases employee contributions and average compensation for calculation of benefits

1 AN ACT

2 To amend and reenact R.S. 11:403(5), 450(B), 612(1), and 701(5)(b) through (e) and to
3 enact R.S. 11:102(D) and 701(5)(f), relative to state retirement systems; to provide
4 with respect to employer contributions; to provide with respect to benefit calculation;
5 to provide with respect to system funding; to provide an effective date; and to
6 provide for related matters.

7 Notice of intention to introduce this Act has been published
8 as provided by Article X, Section 29(C) of the Constitution
9 of Louisiana.

10 Be it enacted by the Legislature of Louisiana:

11 Section 1. R.S. 11:403(5), 450(B), 612(1), and 701(5)(b) through (e) are hereby
12 amended and reenacted and R.S. 11:102(D) and 701(5)(f) are hereby enacted to read as
13 follows:

14 §102. Employer contributions; determination; state systems

15 * * *

16 D. Notwithstanding any provision of this Section, R.S. 11:102.1, or R.S.
17 11:102.2 to the contrary, any actuarial gains resulting from a reduction in the present
18 value of future benefits and any reduction of the unfunded accrued liability of the
19 Louisiana State Employees' Retirement System and the Teachers' Retirement System

1 of Louisiana resulting from the Act originating as House Bill No. 530 of the 2011
2 Regular Session of the Legislature shall be applied to reducing the balance of the
3 amortization base resulting from the change in liability recognized on June 30, 2009.
4 In no event shall any gains resulting from a reduction in the present value of future
5 benefits be applied toward reducing the normal cost of such systems as provided in
6 Subparagraph (B)(3)(a) of this Section.

7 * * *

8 §403. Definitions

9 The following words and phrases used in this Chapter shall have the
10 following meanings, unless a different meaning is clearly required by the context:

11 * * *

~~(5)(a)(i) "Average compensation", for a member whose first employment making him eligible for membership in the system began on or before June 30, 2006, and for any person who receives an additional benefit pursuant to R.S. 11:444(A)(2)(b) or (c), 557, 582, or 602 or R.S. 24:36 whose first employment making him eligible for membership in one of the state systems occurred on or before December 31, 2010, means the average annual earned compensation of a state employee for the thirty-six highest months of successive employment, or for the highest thirty-six successive joined months of employment where interruption of service occurred; however, average compensation for part-time employees who do not use thirty-six months of full-time employment for average compensation purposes shall be based on the base pay the part-time employee would have received had he been employed on a full-time basis.~~

~~(ii) The earnings to be considered for the thirteenth through the twenty-fourth month shall not exceed one hundred twenty-five percent of the earnings of the first through the twelfth month. The earnings to be considered for the final twelve months shall not exceed one hundred twenty-five percent of the earnings of the thirteenth through the twenty-fourth month. Nothing in this Subparagraph.~~

1 ~~however, shall change the method of determining the amount of earned~~
2 ~~compensation received.~~

3 ~~(b)(i)~~ "Average compensation", ~~for a member whose first employment~~
4 ~~making him eligible for membership in the system began on or after July 1, 2006,~~
5 ~~and subject to the limitations provided in this Subparagraph,~~ means the average
6 annual earned compensation of a ~~state employee~~ member for the sixty highest
7 months of successive employment or for the highest sixty successive joined months
8 of employment where interruption of service occurred; however, average
9 compensation for part-time employees who do not use sixty months of full-time
10 employment for average compensation purposes shall be based on the base pay the
11 part-time employee would have received had he been employed on a full-time basis.
12 ~~This Item shall also be applicable to any judge, court officer, governor, lieutenant~~
13 ~~governor, clerk or sergeant-at-arms of the House of Representatives, secretary or~~
14 ~~sergeant-at-arms of the Senate, or state treasurer whose first employment making~~
15 ~~him eligible for membership in one of the state systems occurred on or after January~~
16 ~~1, 2011.~~

17 ~~(ii)~~ (b) The member's earnings to be considered ~~for persons to whom Item~~
18 ~~(i) of this Subparagraph applies~~ for the thirteenth through the twenty-fourth month
19 shall not exceed one hundred fifteen percent of the earnings of the first through the
20 twelfth month. The earnings to be considered for the twenty-fifth through the thirty-
21 sixth month shall not exceed one hundred fifteen percent of the earnings of the
22 thirteenth through the twenty-fourth month. The earnings to be considered for the
23 thirty-seventh through the forty-eighth month shall not exceed one hundred fifteen
24 percent of the earnings of the twenty-fifth through the thirty-sixth month. The
25 earnings for the final twelve months shall not exceed one hundred fifteen percent of
26 the earnings of the thirty-seventh through the forty-eighth month. The limitations
27 on the computation of average compensation contained in this ~~Item~~ Subparagraph
28 shall not apply to any twelve-month period during which compensation increased by
29 more than fifteen percent over the previous twelve-month period solely because of

1 an increase in compensation by a uniform systemwide increase adopted by the state
2 Department of Civil Service and approved by the governor or because of a pay
3 adjustment enacted by the legislature. ~~This Item shall also be applicable to any~~
4 ~~judge, court officer, member of the Louisiana Legislature, governor, lieutenant~~
5 ~~governor, clerk or sergeant-at-arms of the House of Representatives, secretary or~~
6 ~~sergeant-at-arms of the Senate, or state treasurer whose first employment making~~
7 ~~him eligible for membership in one of the state systems occurred on or after January~~
8 ~~1, 2011.~~

9 (iii) ~~The provisions of this Subparagraph shall not apply to any person who~~
10 ~~receives an additional benefit pursuant to R.S. 11:444(A)(2)(b) or (c), 557, 582, or~~
11 ~~602 or R.S. 24:36 whose first employment making him eligible for membership in~~
12 ~~one of the state systems occurred on or after January 1, 2011.~~

13 * * *

14 §450. Termination of participation

15 * * *

16 B. Upon termination of participation in the plan but not employment, credits
17 to the account shall cease and no retirement benefits shall be paid to the participant
18 until employment is terminated. The balance in the participant's subaccount shall be
19 placed in a self-directed subaccount in the name of the participant as provided for in
20 R.S. 11:451.1, and the participant shall then be bound by the provisions of said
21 Section. No payment shall be made based on credits in the subaccount until
22 employment is terminated as defined in this Section. The participant may continue
23 employment after termination of participation in the plan for the sole purpose of
24 accruing a supplemental benefit, and employer and employee contributions shall
25 resume. ~~Correction officers, probation and parole officers, and security officers of~~
26 ~~the Department of Public Safety and Corrections, peace officers of the Department~~
27 ~~of Public Safety and Corrections, office of state police, other than state troopers, as~~
28 ~~provided in R.S. 11:444(A)(2)(b); and personnel employed by the Department of~~
29 ~~Revenue, office of alcohol and tobacco control, as provided in R.S. 11:444(A)(2)(c);~~

1 ~~who have ended their participation in the Deferred Retirement Option Plan but not~~
2 ~~employment shall make contributions at the rate established in R.S. 11:62(5)(b).~~

3 * * *

4 §612. Application; definitions

5 Terms not specifically defined in this Section shall have the meanings
6 provided in R.S. 11:403 unless a different meaning is clearly required by the context.
7 For purposes of this Subpart:

8 (1) "Average compensation" ~~means the average annual earned compensation~~
9 ~~of a member for the sixty highest months of successive employment, or for the~~
10 ~~highest sixty successive joined months of employment where interruption of service~~
11 ~~occurred; however, average compensation for part-time employees who do not use~~
12 ~~sixty months of full-time employment for average compensation purposes shall be~~
13 ~~based on the base pay the part-time employee would have received had he been~~
14 ~~employed on a full-time basis. The earnings to be considered for the thirteenth~~
15 ~~through the twenty-fourth month shall not exceed one hundred fifteen percent of the~~
16 ~~earnings of the first through the twelfth month. The earnings to be considered for the~~
17 ~~twenty-fifth through the thirty-sixth month shall not exceed one hundred fifteen~~
18 ~~percent of the earnings of the thirteenth through the twenty-fourth month. The~~
19 ~~earnings to be considered for the thirty-seventh through the forty-eighth month shall~~
20 ~~not exceed one hundred fifteen percent of the earnings of the twenty-fifth through~~
21 ~~the thirty-sixth month. The earnings for the final twelve months shall not exceed one~~
22 ~~hundred fifteen percent of the earnings of the thirty-seventh through the forty-eighth~~
23 ~~month. The limitations on the computation of average compensation contained in~~
24 ~~this Paragraph shall not apply to any twelve-month period during which~~
25 ~~compensation increased by more than fifteen percent over the previous twelve-month~~
26 ~~period solely because of an increase in compensation by a uniform systemwide~~
27 ~~increase adopted by the state Department of Civil Service and approved by the~~

~~governor or because of a pay adjustment enacted by the legislature:~~ shall be defined as provided in R.S. 11:403.

* * *

§701. Definitions

As used in this Chapter, the following words and phrases have the meanings ascribed to them in this Section unless a different meaning is plainly required by the context:

* * *

(5)

* * *

(b) "Average compensation", for any member who is an academic or administrative employee of a public institution of higher education, or who is an employee of the Board of Regents, the Board of Trustees for State Colleges and Universities, the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, or the Board of Supervisors of Southern University and Agricultural and Mechanical College, or their successors, or any other constitutionally established board which manages institutions of higher education, means his average earnable compensation for the five highest successive years of employment, or the highest five successive joined years where interruption of service occurred. The computation of such average compensation shall be in accordance with the following guidelines:

(i) The amount for the first through the twelfth month shall not exceed the compensation for the immediately preceding twelve months by more than fifteen percent.

(ii) The amount for the thirteenth through the twenty-fourth month shall not exceed the lesser of the maximum allowable compensation amount or the actual compensation amount for the first through twelfth month by more than fifteen percent.

1 (iii) The amount for the twenty-fifth through the thirty-sixth month shall not
2 exceed the lesser of the maximum allowable compensation amount or the actual
3 compensation amount for the thirteenth through twenty-fourth month by more than
4 fifteen percent.

5 (iv) The amount for the thirty-seventh through the forty-eighth month shall
6 not exceed the lesser of the maximum allowable compensation amount or the actual
7 compensation amount for the twenty-fifth through the thirty-sixth month by more
8 than fifteen percent.

9 (v) The amount for the final twelve months shall not exceed the lesser of the
10 maximum allowable compensation amount or the actual compensation amount for
11 the thirty-seventh through the forty-eighth month by more than fifteen percent.

12 (c) The thirty-six or sixty months used for average compensation, as the case
13 may be, cannot cover a period when the member receives more than three years or
14 five years of service credit respectively.

15 ~~(c)~~ (d)(i) The limitations on the computation of average compensation in this
16 Paragraph shall not apply to any of the twelve-month periods where compensation
17 increased by more than the amount allowable in Subparagraph (a) of this Paragraph
18 over the previous twelve-month period solely because of an increase in
19 compensation by legislative act, by city/parish systemwide salary increase, or by a
20 systemwide increase at a college or university.

21 (ii) Any active member or retiree whose average compensation includes or
22 would include earnable compensation received between June 30, 1995, and June 30,
23 1997, as the result of a legislative act, a city/parish systemwide salary increase, or
24 a systemwide increase at a college or university shall have his average compensation
25 calculated without regard to the limitations on the computation of average
26 compensation imposed in this Paragraph for that period. The provisions of this Item
27 shall only apply to any such member or retiree whose employer filed with this
28 system on or before July 1, 1998, a written request or application for coverage under
29 this Subparagraph.

(e) (f) Notwithstanding any other provision of law to the contrary, "average compensation" shall not include any amount in excess of the limitation provided in R.S. 11:785.1.

Section 4. Any final judgment, rendered by a court of law, declaring the provisions of the Act to be unconstitutional as applicable to members of the Louisiana State Employees' Retirement System or the Teachers' Retirement System of Louisiana who have acquired a vested right with regard to the benefit provisions applicable to such members on

1 the effective date of this Act, shall cause the provisions of this Act to be applicable solely
2 to members of such system who have not attained such a vested right on the effective date
3 of this Act.

4 Section 5. If the Act originating as House Bill No. 479 of the 2011 Regular Session
5 of the Legislature is enacted, the provisions of this Act shall be null, void, and of no effect.

6 Section 6. This Act shall become effective on June 30, 2011; if vetoed by the
7 governor and subsequently approved by the legislature, this Act shall become effective on
8 June 30, 2011, or on the day following such approval by the legislature, whichever is later.

DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

Pearson

HB No. 530

Abstract: Relative to the La. State Employees' Retirement System (LASERS) and the Teachers' Retirement System of La. (TRSL) changes from a three-year to a five-year Final Average Compensation (FAC) for state employees and higher education employees. Provides for payment of Unfunded Accrued Liability (UAL).

AVERAGE COMPENSATION

Present law generally provides for a benefit calculation formula for members of each state system typically consisting of: (years of service) x (accrual rate) x (final average compensation).

Present law (R.S. 11:403(5) and 701(5)), relative to LASERS and TRSL provides varying periods of FAC for members of those systems ranging from three to five years. FAC periods for LASERS and TRSL are as follows:

- (1) LASERS: Rank-and-file members hired on or before June 30, 2006, have a three-year FAC. Rank-and-file members hired after such date have a five-year FAC.
- (2) LASERS: Special groups such as the governor, lieutenant governor, and legislators, hired on or before Dec. 31, 2010, have a three-year FAC. Such members hired on or after January 1, 2011, have a five-year FAC.
- (3) LASERS: Certain hazardous duty groups hired on or before Dec. 31, 2010, have a three-year FAC. Such members hired on or after Jan. 1, 2011, have a five-year FAC.
- (4) TRSL: Members hired on or before Dec. 31, 2010, have a three-year FAC. Members hired on or after Jan. 1, 2011, have a five-year FAC.

Proposed law provides that all members of LASERS and higher education employees in TRSL shall have a five-year FAC.

Proposed law further provides, as a transition provision, that proposed law shall not cause the average compensation of any member retiring on or after the effective date of proposed

law to be less than such member's average compensation as it existed under present law when proposed law becomes effective.

EMPLOYER CONTRIBUTIONS / UNFUNDED ACCRUED LIABILITY

Present law (R.S. 11:102) generally provides the method for actuarially determining the employer contribution rate for state retirement systems every fiscal year. Such employer contribution shall be a percentage of the total payroll of active members in a given system. Requires each employer paying a portion of a member's salary to fund the employer contribution on that portion of the member's salary. Employer costs consist mainly of two parts: (1) an amortization payment on the system's debt, known as the "Unfunded Accrued Liability" (UAL); and (2) a payment for the current year's benefits, known as "normal cost".

Present law (R.S. 11:102, 102.1, and 102.2) generally provides for various amortization schedules for different portions of the UAL.

Proposed law provides that actuarial gains or savings resulting from proposed law change to a five-year FAC shall be applied to the amortization base resulting from the change in liability recognized on June 30, 2009. Further provides that such gains shall not be used to reduce the system's normal cost.

Proposed law provides that the Public Retirement Systems' Actuarial Committee (PRSAC) shall meet as soon as practicable to adopt revised valuations and employer contribution rates for LASERS and TRSL.

Proposed law provides that in the event proposed law is declared by a court to be unconstitutional as applied to vested members of LASERS and TRSL, proposed law shall only apply to non-vested members.

Effective June 30, 2011. However, if the Act originating as HB No. 479 of 2011 R.S. is enacted, proposed law shall be null, void, and of no effect.

(Amends R.S. 11:403(5), 450(B), 612(1), and 701(5)(b) through (e); Adds R.S. 11:102(D) and 701(5)(f))

Summary of Amendments Adopted by House

Committee Amendments Proposed by House Committee on Retirement to the original bill.

1. Removes proposed changes to the State Police Pension and Retirement System.
2. Changes the employee contribution increase for members to whom proposed law applies from 1.5% on the first \$50,000 of earnings and 3% on earnings over \$50,000 to a flat 1% increase beginning July 1, 2012, and an additional 1% increase beginning July 1, 2013.
3. Provides that instead of being applied to reducing employer contributions derived from State General Funds, the increased employee contributions implemented by proposed law shall be applied to LASERS' and TRSL's UAL.
4. Provides that employee contribution increases implemented by proposed law shall not apply to ORP participants in TRSL.
5. Retains "anti-spiking" provisions (percentage limitations on a member's FAC period) contained in present law rather than lowering the allowable increases.

6. Provides that if proposed law is declared by a court to be unconstitutional as applied to vested members of LASERS and TRSL, proposed law shall only apply to non-vested members.
7. Changes the effective date of proposed law ~~from~~ July 1, 2011, ~~to~~ June 30, 2011, and provides further that if the Act originating as HB No. 479 of 2011 R.S. is enacted, proposed law shall be null, void, and of no effect.

House Floor Amendments to the engrossed bill.

1. Removes provisions requiring an increase in employee contributions for members of LASERS and members of TRSL employed in higher education.
2. Provides that the savings resulting from proposed law change from a three-year FAC to a five-year FAC shall be applied to the portion of the systems' Unfunded Accrued Liabilities (UAL) recognized on June 30, 2009.